SUBMISSION

TO THE

MISCELLANEOUS ESTIMATES COMMITTEE

CONCERNING BILL C-133

"AN ACT TO AMEND THE SUPPLEMENTARY

RETIREMENT BENEFITS ACT (NO. 2)"

BY THE CANADIAN LABOUR CONGRESS

OPEIU225 DECEMBER 17, 1982

Madame Chairman, Members of the Committee

Some of you, who are also members of the Standing Committee on Health, Welfare and Social Affairs, will recognize that this is our second appearance before a standing committee of the House of Commons this week. Earlier in the week we appeared before the Standing Committee on Health, Welfare and Social Affairs to express our opposition to Bill C-131 which will cap the indexation of Old Age Security benefits at 6 and 5 per cent in 1983 and 1984. It will come as no great surprise then, if we tell you that we also oppose Bill C-133 which would impose a cap on the indexation of benefits under the Supplementary Retirement Benefits Act. In certain fundamental respects, the reasons for opposing Bill C-133 are the same as the reasons for our opposing Bill C-131. However, some of our more specific objections to Bill C-133 reflect the unique features of occupational pension plans as opposed to universal plans like the Old Age Security program.

In discussing Bill C-131 we pointed out that while the subject matter of the Bill was a pension program, the considerations underlying the Bill were primarily fiscal. The proposal to cap OAS indexing was not justified as a way of giving effect to pension policy; rather, it was justified as a way of establishing a desired budgetary balance.

The same point can be made with respect to Bill C-133. No attempt has been made to set this Bill in the context of a policy regarding the just and equitable treatment of retirees from the federal public service. The sole justification offered for the Bill in the June 28th budget speech was that it would reduce expenditures under the Supplementary Retirement Benefits Act. Given the purely fiscal consideration that underlies Bill C-133, it is the logical equivalent of an extremely unjust tax bill. It is a bill that would impose a tax only on the retirees of the federal public service. An overt and explicit tax of this sort could never be justified, and neither can the tax implied in Bill C-133.

It is striking but not surprising, that the implicit tax that is embodied in Bill C-133 is also a feature of Bills C-131 and C-132, and the ignominious Bill C-124 which was passed last summer. Rather than offer a direct defence of these implied taxes and their consequences, representatives of the government and some Members of Parliament have tried to rationalize them as a way of sharing the burden of the current recession. Unfortunately the strategy is self-defeating and the chosen means of implementing it are highly discriminatory.

Each one of the bills just referred to undermines the ability of Canadians to buy goods and services and therefore adds to the misery of the 1.5 million Canadians who are unemployed and ensures that the 30 per cent of our industrial plant and equipment that is currently

idle, will remain idle. These bills do not involve the sharing of an established degree of economic misery, they add to Canada's economic misery. Moreover, even if the strategy underlying these bills was not self-defeating, the hardships of the recession are being shared in a highly selective and discriminatory fashion through these bills. Why it is that retirees from the federal public service, active employees of the federal government, families with children, and people over 65 should be singled out for sharing the burdens of the recession, is beyond us. Surely if it was necessary to share the burdens of the recession it would have been far more equitable to impose that burden through a tax that would fall uniformly on all members of society.

Our concern and anger about the manner in which the government has chosen to share the burdens of the recession has been accentuated by two things in particular. First, the same budget speech that identified the groups that would share the burdens of the recession included proposals that would shelter the inflationary element in personal investment income from taxation. Second, the former President of the Treasury Board, the Honourable Donald Johnston, has said explicitly that Bill C-124 was introduced at the request of business leaders who wanted the federal government to take the lead in driving all wages downward. The same point has been confirmed by Ian Sinclair, the chairman of Canadian Pacific Enterprises as well as the private sector committee on 6 and 5. In light of these circumstances we view the groups who will have their standard of living

reduced by Bills C-124, C-131, C-132 and C-133 as recipients of highly discriminatory and punitive treatment.

With regard to the specific provisions of Bill C-133, we have one overriding objection to the Bill: it refuses to recognize the contractual nature of the commitment that has been made to retired employees of the federal public service under the Supplementary Retirement Benefits Act. Indeed, the Bill treats the benefits under the SRBA as a system of gratuities rather than as part of a pension plan. Moreover, the government offers itself a degree of latitude in breaking contractual commitments which, in most Canadian jurisdictions, would be prohibited by law to the sponsors of private pension plans.

The Supplementary Retirement Benefits Act obliges the Government of Canada to provide indexed pension benefits to its retired employees. The retired employees themselves had every reason to believe that these obligations would be honoured and to arrange their financial affairs accordingly. If one assumes that the rate of inflation will exceed 6½ and 5½ per cent in 1983 and 1984, retired members of the federal public service will find that the promises made to them have been broken by Bill C-133 and that their standard of living has been reduced by the Bill. Moreover because the Bill makes no provision for recovering the reductions in income that will be suffered in 1983 and 1984, the incomes of retirees from the federal public service will be reduced throughout the remainder of their lives.

This breach of faith with retired employees of the federal public service has no basis in pension policy, and private pension plan sponsors would not be permitted the same latitude in amending the provisions of private plans in the way that Bill C-133 amends the SRBA. Pension benefits legislation in Manitoba, Ontario and New Brunswick specifically prohibits amendments to private pension plans that would reduce benefits earned up to the date of an amendment. The pension benefits legislation in other jurisdictions does not prohibit such amendments explicitly. But the Superintendants of Insurance in these other jurisdictions - including Canada - will normally reject amendments to private pension plans that would have the effect of reducing benefits that have been earned prior to the date of a proposed amendment. Thus, when judged by the standards that apply to private pension plans, Bill C-133 would not be an acceptable amendment to the SRBA. It clearly reduces benefits to which an entitlement was established prior to the introduction of the Bill.

During the course of the debate on Bill C-133, some Members of Parliament have suggested that a breach of faith with retired members of the federal public service is justified on the grounds that a portion of the payments under the SRBA are charged directly to consolidated revenue as opposed to the Supplementary Retirement Benefits Account. This view implies that the government's obligations are greater in relation to the expenditures that can be charged to the SRB Account, than

they are in relation to the expenditures that are charged directly to consolidated revenue. The greater obligation to make the payments that can be charged to the SRB Account stems, presumably, from the fact that the account has been built up through employer and employee contributions. This line of reasoning was invoked in raising the caps on SRB indexing from 6 and 5 to 6.5 and 5.5. However, this line of reasoning strikes us as completely specious.

In the first place, the claim that payments are coming from consolidated revenue, and ultimately the taxpayers of Canada, can be made with respect to most expenditures of the Government of Canada. This claim, however, tells us nothing about the expenditure obligations of the government. Indeed if one wants to argue that expenditure obligations under the SRBA have no force to the extent that they are charged directly to consolidated revenue, then one might just as well argue that the government is not obliged to honour its contracts for the purchase of goods and services, or to honour its prescribed interest payments on the public debt. After all, these obligations are also charged directly to consolidated revenue. In short, to note that the expenditure obligations under the SRBA are charged, in part, to consolidated revenue tells us absolutely nothing about the obligation to make the payments prescribed in the SRBA.

As was noted above, the SRBA commits the Government of Canada to making indexing payments and that obligation exists whether the resulting expenditures are charged directly to consolidated revenue or the SRB Account. The failure to live up to these obligations on the grounds that some of the resulting expenditures are charged directly to consolidated revenue simply ignores the nature of the obligation that was taken on under the SRBA. It also provides a further example of the degree to which the Government of Canada is allowing itself greater scope for undermining established pension rights than it would allow to the sponsors of private pension plans. In private pension plans, if it is discovered that required employee contributions and those prescribed for an employer are insufficient to cover the value of the benefits promised under the plan, the plan sponsor is required by law to make special payments to eliminate the shortfall. Private plan sponsors do not have the option of reducing established rights to benefits in order to eliminate the shortfall. The argument that the Government of Canada should have the right to reduce benefits under the SRBA to the extent that the contributions to the SRBA do not pay for benefits, clearly suggests that the government should have greater freedom in reducing established pension rights than the sponsors of private plans have.

In addition, it is easy to fall prey to an illusion when dealing with the question of the degree to which employee and employer contributions are paying for inflation protection for the retirees from

the federal public service. It is clear, on the one hand, that inflation causes expenditures under the SRBA to increase and that, to a degree, these expenditures are charged directly to consolidated revenue. At the same time, however, inflation will be raising the rates of return that are attributable to the pension accounts such as the Public Service Superannuation Account to which basic, non-indexed, benefits are charged. Under pension plans like the Superannuation plan, which provide non-indexed benefits, it commonly happens that the retired members of the plans do not share in the higher returns that are brought on by inflation and they end up subsidizing the rest of the plan to the extent that they do not share in these higher returns. This phenomenon has been widely acknowledged and is noted in the recent green paper "Better Pensions for Canadians" that was published by the Government of Canada on December 9th, 1982. In view of the likely effects of inflation on the Superannuation plan, there is an obvious illusion involved in arguing as if the contributions to the SRBA exhaust the issue of the degree to which employer and employee contributions have paid for inflation protection. More importantly, however, the obligation to provide indexed benefits under the SRBA exists irrespective of the degree to which inflation protection has been paid for through employer and employee contributions.

In concluding our remarks, Madame Chairman, we wish to summarize the key points in the foregoing remarks. The key points are:

1) the fact that some of the payments under the Supplementary Retirement Benefits Act are charged directly to consolidated revenue is irrelevant to determining the fairness of Bill C-133;

2) under Bill C-133 the Government of Canada is allowing itself to shirk obligations to its retired employees and it is doing so in a manner that the sponsors of private pension plans would be prohibited by law from doing;

3) retirees from the federal public service will suffer a decrease in their standard of living in 1983 and 1984 as a result of Bill C-133 and they will not be permitted to make up this reduction in their standard of living;

4) retirees from the federal public service who have their standard of living reduced by Bill C-133 have every reason to believe that they are being singled out for discriminatory and punitive treatment in the name of self-defeating economic strategy; and,

5) with regard to the previous point, those people who will bear the brunt of Bills C-124, C-131, and C-132 are in the same situation.

Respectfully submitted on behalf
of THE CANADIAN LABOUR CONGRESS

Dennis McDermott, President

Donald Montgomery, Secretary-Treasurer

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